

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

Year Ended October 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 6
Osage County, Kansas

We have audited the accompanying basic financial statements of Rural Water District No. 6, Osage County, Kansas, as of and for the year ended October 31, 2011, as listed in the table of contents. These financial statements are the responsibility of Rural Water District No. 6, Osage County, Kansas' management. Our responsibility is to express an opinion on these financial statements based on our audit.

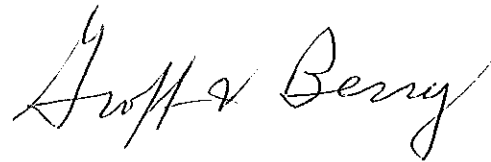
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the guidance in the Kansas Municipal Audit Guide (KMAG) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 6, Osage County, Kansas, as of October 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "L. H. Berry".

August 7, 2012

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF NET ASSETS
October 31, 2011

ASSETS

Current assets:

Cash - checking	\$ 7,099
Certificate of deposit	25,422
Accounts receivable	10,717
Accounts receivable - other	-
Accrued interest receivable	205
Prepaid insurance	<u>913</u>
Total current assets	<u>44,356</u>

Noncurrent assets:

Restricted cash - checking Rural Development	13,530
Restricted cash - savings	4,086
Restricted cash - certificate of deposit	<u>4,526</u>
	<u>22,142</u>

Capital assets:

Property, plant and equipment:	
Land and easements	3,233
Water system	673,972
Office equipment	3,565
Construction in progress	<u>448,683</u>
	1,129,453
Less: accumulated depreciation	<u>321,488</u>
	<u>807,965</u>
Total assets	<u>\$ 874,463</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF NET ASSETS
October 31, 2011

LIABILITIES AND NET ASSETS

Current liabilities:		
Notes payable	\$ 7,945	
Accounts payable	21,103	
Accrued expense	1,223	
Meter application deposits	<u>5,000</u>	
Total current liabilities		\$ 35,271
Noncurrent liabilities:		
Notes payable		506,382
Net assets:		
Invested in capital assets, net of related debt	293,638	
Restricted for debt service	22,142	
Unrestricted	<u>17,030</u>	
Total net assets		<u>332,810</u>
Total liabilities and net assets		\$ <u>874,463</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF ACTIVITIES AND
CHANGES IN NET ASSETS
Year Ended October 31, 2011

Operating revenues:		
Water sales	\$ 53,598	
Debt service charges	36,255	
Penalties	799	
Miscellaneous	219	
Reimbursed expense	<u>410</u>	
Total operating revenues		\$ 91,281
Operating expenses:		
Water purchased	52,800	
Supplies and repairs	5,572	
Utilities	1,459	
Office supplies and expense	2,026	
Insurance	2,075	
Salaries	9,712	
Mileage reimbursement	1,851	
Professional fees	6,894	
Testing	216	
Dues	120	
Miscellaneous	2,011	
Water plan fees	459	
Payroll taxes	805	
Depreciation	<u>15,138</u>	
Total operating expenses		<u>101,138</u>
Net operating loss		(9,857)
Non-operating income (expense):		
Interest income	458	
Interest expense	(13,304)	
Meter purchase	<u>102,300</u>	<u>89,454</u>
Changes in net assets		79,597
Net assets, beginning of year		<u>253,213</u>
Net assets, end of year		\$ <u><u>332,810</u></u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

STATEMENT OF CASH FLOWS
Year Ended October 31, 2011

Cash flows from operating activities:		
Receipts from customers		\$ 89,735
Payments to suppliers		(96,244)
Other receipts		<u>8,418</u>
Net cash provided by operating activities		1,909
Cash flows from capital and related financing activities:		
Note proceeds	\$ 395,000	
Office equipment	(3,565)	
Principal paid on notes	(56,283)	
Interest paid on notes	(12,865)	
Construction in progress	<u>(377,397)</u>	
Net cash used by capital and related financing activities		(55,110)
Cash flows from investing activities:		
Interest received	423	
Restricted cash	<u>(13,530)</u>	
Net cash used by investing activities		<u>(13,107)</u>
Net decrease in cash and cash equivalents		(66,308)
Cash, beginning of year		<u>98,829</u>
Cash, end of year		\$ <u><u>32,521</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating loss		\$ (9,857)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		15,138
Meter purchase		3,500
Change in assets and liabilities:		
Receivables and prepaids		(2,777)
Payables		3,959
Accrued expense		146
Meter application deposits		<u>(8,200)</u>
Net cash provided by operating activities		\$ <u><u>1,909</u></u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies

Equity and Basis of Accounting

The District was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District is not included in any other governmental "reporting entity" as defined in GASB pronouncements, since Board members are elected by the patrons of the District, have decision-making authority, power to designate management, the ability to influence operations and primary accountability for fiscal matters. The District applies all GASB Pronouncements as well as the Financial Accounting Standards Board Pronouncements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all checking and unrestricted certificates of deposit are considered to be cash equivalents.

Capital Assets - Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Membership

The sales price of benefit unit certificates is considered a contribution to the District. Contributions for meter setbacks and extensions from November 1, 1998 are also considered a contribution to the District. These are reported as "members' contributions." At October 31, 2010, the District had sold 143 benefit units. An additional 47 benefit units have been sold to be included in the expansion of the District.

Income Recognition

Water sales are recorded when collected. It is not practical to estimate service receivables at year end and such amounts are not material to the financial statements taken as a whole.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Income Taxes

Rural Water District No. 6, Osage County, Kansas, is a tax-exempt entity and not subject to income taxes at either the federal or State level.

Budget

The District has not been required to operate under the Kansas budget laws. For the fiscal year ending October 31, 2011, a budget was required by Rural Development.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

2 - Restricted Assets

The District is using the reserve savings account and a portion of a certificate of deposit at Lyndon State Bank to meet all loan reserve requirements at October 31, 2011, as follows:

Rural Development Administration	Loan 02	\$ 6,910
Rural Development Administration	Loan 04	<u>1,702</u>
Total		<u>\$ 8,612</u>
Account balance as of October 31, 2011		<u>\$ 8,612</u>

3 - Capital Assets - Property, Plant and Equipment

Capital assets - property, plant and equipment activity for the year ended October 31, 2011 was as follows:

	October 31, 2010	Additions	October 31, 2011
Land and easements	\$ 3,233	\$ -	\$ 3,233
Water system	673,972	-	673,972
Construction in progress	57,486	391,197	448,683
Office Equipment	<u>-</u>	<u>3,565</u>	<u>3,565</u>
	<u>\$ 734,691</u>	<u>\$ 394,762</u>	<u>\$ 1,129,453</u>

Depreciation expense was \$ 15,138 for the year ended October 31, 2011.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt - Notes Payable

Long-term debt consisted of the following:

During the current year the District borrowed \$ 395,000 from the United States Department of Agriculture - Rural Development on a Real Estate Mortgage (Insured Rural Water District Loan), dated May 9, 2011 for 40 years. The monthly payment is \$ 1,474, including interest of 3.25%. A portion of the proceeds was used to pay off the mortgage payable to Berkadia Commercial Mortgage on May 15, 2011. The loan is secured by all of the District's revenue and income, accounts, contract rights, water purchase contracts and general intangibles, now owned or hereafter acquired.

There are two other loans due to Rural Development dated February 10, 1998, payable for 40 years. The monthly payments are \$ 731, including interest at 4.875%.

Loan balances and maturity dates are as follows:

<u>Maturity Date</u>	<u>October 31, 2011</u>
December 4, 2015	\$ -
February 10, 2038	96,873
February 10, 2038	24,454
May 12, 2051	<u>393,000</u>
	<u>\$ 514,327</u>

Maturities for the loans are as follows:

<u>Year Ending October 31,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 7,945	\$ 18,548
2013	8,223	18,237
2014	8,546	17,914
2015	8,872	17,578
2016	9,232	17,228
2017 - 2021	51,936	80,364
2022 - 2026	63,129	69,171
2027 - 2031	76,847	55,443
2032 - 2036	74,613	39,698
2037 - 2041	61,273	28,468
2042 - 2046	70,570	17,870
2047 - 2051	<u>73,141</u>	<u>5,509</u>
	514,327	\$ <u>386,028</u>
Less: current maturities	<u>7,945</u>	
	<u>\$ 506,382</u>	

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt - Notes Payable (Continued)

The following is a detailed listing of the District's long-term debt:

<u>Debt Issue</u>	<u>Interest Rates</u>
Mortgage payable:	
Water system	5.000%
Installment promissory notes:	
Water system	4.875%
Water system	4.875%
Water system	3.250%

The following is a summary of changes in long-term debt for the year ended October 31, 2011:

<u>Debt Issue</u>	<u>Beginning Principal Outstanding</u>	<u>Additions to Principal</u>	<u>Reductions of Principal</u>	<u>Ending Principal Outstanding</u>
Mortgage payable:				
Water system	\$ 51,401	\$ -	\$ 51,401	\$ -
Installment promissory notes:				
Water system	99,192	-	2,319	96,873
Water system	25,017	-	563	24,454
Water system	<u>-</u>	<u>395,000</u>	<u>2,000</u>	<u>393,000</u>
	<u>\$ 175,610</u>	<u>\$ 395,000</u>	<u>\$ 56,283</u>	<u>\$ 514,327</u>

5 - Deposits

Kansas State Statutes authorize the District, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements and U.S. Treasury bills and notes. Statutes also require that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the District.

At October 31, 2011, the carrying amount of the District's deposits, including certificates of deposit, was \$ 54,663 and the bank balance was \$ 60,686, all of which was covered by federal deposit insurance.

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

6 - Water Purchase Contract

On April 1, 1977, the District entered into a contract with Rural Water District No. 7, Osage County, Kansas, for the purchase of water. The original contract allowed for annual modification to the original rate of \$ 1.00 per 1,000 gallons of water. The current price is \$ 4.70 per 1,000 gallons of water.

The District's water purchases for the year ended October 31, 2011 are summarized as follows:

<u>Gallons Purchased</u>	<u>Rate</u>	<u>Amount</u>
11,610,000	\$ 4.45/4.70	\$ 52,800

During the year October 31, 2004, the District entered into conversations with Rural Water District No. 7, Osage County, Kansas, regarding the price of water purchased per the contract. As a result, the two Boards have voted unanimously to pursue consolidation of the two Districts; however, at October 31, 2011, no further progress has been accomplished.

7 - Related Party

During a prior year, a Board officer was hired as the maintenance man for the District, to be compensated on an hourly rate and reimbursed for mileage. During the year ended October 31, 2011, \$ 4,140 was paid in salary and \$ 1,229 was paid for mileage reimbursement.

8 - Insurance Coverage

Insurance coverage for the District at October 31, 2011 is as follows:

	<u>Coverage</u>
Commercial property:	
Water tower (90% replacement cost)	\$ 221,801
Pump station (90% replacement cost)	80,571
Commercial general liability:	
Liability	1,000,000/1,000,000
Bodily injury and property damage	500,000/500,000
Damage to rented premises	100,000
Medical expense	5,000
Position schedule bond:	
Treasurer	30,000
Linebacker declarations:	
Liability	1,000,000/1,000,000
Deductible per loss	1,000

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

9 - Water Sales

During the year ended October 31, 2011, the District sold 7,708,050 gallons of water. The water rates were \$ 6.00/7.00 per 1,000 gallons. For the year ended October 31, 2011, the approximate water loss was 34%, partly due to the expansion of the District.

The District, at a special meeting on August 16, 2011, approved increasing the water rates as follows:

Minimum (Debt Service Charge)	\$ 25.00
Water (Per 1000 Gallons)	7.00

The penalty figures at 10% per month on unpaid balances and the State water plan fee is \$ 0.032 per 1,000 gallons included in water price, unchanged from previous rates.

10 - Officers and Board Members

The officers and board members of the District for the year ended October 31, 2011 are as follows:

John Davied - Chairman
Don Garrett - Vice-Chairman
Gerald McMillen - Secretary
Dan Dehn - Treasurer
Roy Habegger - Member
Bob Bailey - Member

11 - Grant Application

During a prior year, a Community Development Block Grant was applied for by Osage County and granted in the amount of \$ 490,000, the proceeds to be used for expansion of the District. The estimated cost of the expansion was \$ 950,000. The District will receive an additional loan from the Rural Development Corporation in the amount of \$ 395,000. The District will contribute up to \$ 105,000. The grant was closed out on February 6, 2012, whereby \$ 454,179 of the grant was used.

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 6
Osage County, Kansas

BUDGET COMPARISON
Year Ended October 31, 2011

	<u>Actual</u>	<u>Budget</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues:			
Water sales	\$ 53,598	\$ 49,500	\$ 4,098
Debt service charges	36,255	37,300	(1,045)
Late fees	799	1,100	(301)
Miscellaneous	629	3,000	(2,371)
Interest income	<u>458</u>	<u>700</u>	<u>(242)</u>
Total revenues	<u>91,739</u>	<u>91,600</u>	<u>139</u>
Expenditures:			
Water purchased	52,800	62,930	10,130
Repairs and maintenance	5,572	4,085	(1,487)
Salary	9,712	7,300	(2,412)
Utilities	1,459	1,200	(259)
Professional services	6,894	4,500	(2,394)
Debt retirement (interest expense)	13,304	9,500	(3,804)
Miscellaneous	2,806)	(2,806) (1)
Office supplies and expense	2,026)	(2,026) (1)
Insurance	2,075) 4,000	1,925 (1)
Mileage reimbursement	1,851	1,820	(31)
Payroll taxes	805	-	(805) (1)
Depreciation	<u>15,138</u>	<u>19,000</u>	<u>3,862</u>
Total expenditures	<u>114,442</u>	<u>114,335</u>	<u>(107)</u>
Net revenues over (under) expenditures	\$ <u>(22,703)</u>	\$ <u>(22,735)</u>	\$ <u>32</u>

See accompanying independent auditor's report.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Rural Water District No. 6
Osage County, Kansas

We have audited the financial statements of Rural Water District No. 6, Osage County, Kansas, as of and for the year ended October 31, 2011, and have issued our report thereon dated August 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Water District No. 6, Osage County, Kansas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 6, Osage County, Kansas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 6, Osage County, Kansas' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Rural Water District No. 6, Osage County, Kansas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Rural Water District No. 6, Osage County, Kansas' financial statements that is more than inconsequential will not be prevented or detected by Rural Water District No. 6, Osage County, Kansas' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Rural Water District No. 6, Osage County, Kansas' internal control.

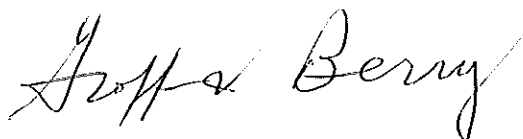
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Rural Water District No. 6, Osage County, Kansas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Rural Water District No. 6, Osage County, Kansas in a separate letter dated August 7, 2012.

This report is intended solely for the information and use of the management of Rural Water District No. 6, Osage County, Kansas and Rural Development, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Jeff A. Berry". The signature is written in a cursive style with a large, stylized "J" and "B".

August 7, 2012